

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
DOLLAR BAY, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2005

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Bruce A Rukkila, CPA, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of and for the year then ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dollar Bay-Tamarack City Area Schools's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Dollar Bay-Tamarack City Area Schools' basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

September 28, 2005



Bruce A Rukkila, CPA, PC

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

We have audited the general purpose financial statements of Dollar Bay-Tamarack City Area Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated September 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Dollar Bay-Tamarack City Area Schools' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dollar Bay-Tamarack City Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the School District's Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

September 28, 2005

Dollar Bay-Tamarack City Area Schools
Management's Discussion and Analysis
June 30, 2005

This section of Dollar Bay-Tamarack City Area School's annual financial report presents our discussion and analysis of the School Districts financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Financial Highlights

Even though the financial position for the Dollar Bay-Tamarack City Area Schools is of concern, there were several areas that should be highlighted. First, the school district increased enrollment by 9.115 students during the 2004-2005 school year resulting in increased state aid. However, that increase was offset by a bonus that was provided to teachers if there was an increase in enrollment. The agreement called for a 50% bonus amount of increased state aid. They received a bonus of approximately \$30,000. Secondly, the lunch program costs were reduced significantly due to the new contract established with another school district. Finally, despite increase costs for health costs, transportation and retirement, the school district budget seems to have stabilized. The Deficit Elimination Plan needs to be followed closely to positively affect the cost reduction initiative for the school.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Overview of the Financial Statements - Continued

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Retirement Funds, School Food Service, and Athletic Funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt, School Food Service and Athletic Funds.

Dollar Bay-Tamarack City Area Schools
Management's Discussion and Analysis
June 30, 2005

Summary of Net Assets

	2005	2004
Assets		
Current and other assets	\$ 751,635	\$ 636,577
Restricted investments	2,476,689	602
Capital assets - Net of accumulated depreciation	3,137,121	3,233,170
Total Assets	<u>\$ 6,365,445</u>	<u>\$ 3,870,349</u>
Liabilities		
Current liabilities	\$ 3,472,876	\$ 945,311
Long-term liabilities	2,894,338	2,952,446
Total Liabilities	<u>6,367,214</u>	<u>3,897,758</u>
Net Assets		
Invested in property and equipment - net of related debt	318,388	357,100
Restricted	54,963	31,257
Unrestricted	(375,120)	(415,765)
Total net assets	<u>(1,769)</u>	<u>(27,409)</u>
Total Liabilities and Net Assets	<u>\$ 6,365,445</u>	<u>\$ 3,870,349</u>

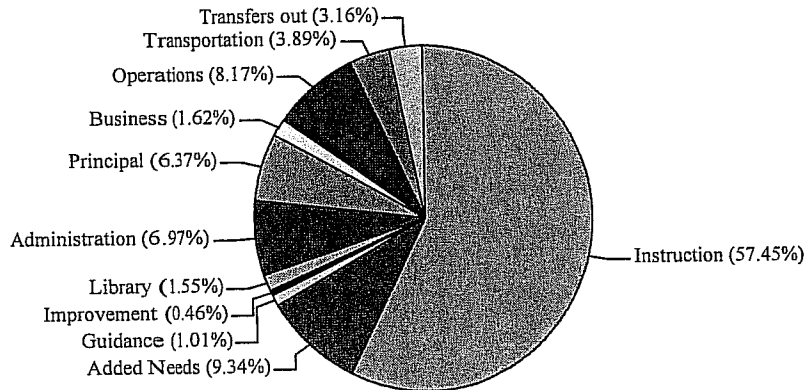
Results of Operations in Governmental Activities

	2005	2004
Program Revenue:		
Charges for services	\$ 37,382	\$ 26,932
Grants and contributions	254,869	284,915
General Revenue:		
Property taxes	448,092	400,926
State foundation allowance	1,697,515	1,652,052
Other	(19,549)	(19,020)
Total Revenue	<u>2,418,309</u>	<u>2,345,805</u>
Functions/Program Expenses		
Instruction	1,430,792	1,475,230
Support services	666,022	676,016
School food services	81,620	91,493
Athletics	39,460	45,349
Interest on long-term debt	161,500	218,815
Other debt	13,275	6
Total Expenses	<u>2,392,669</u>	<u>2,506,909</u>
Change in Net Assets	25,640	(161,104)
Net Assets - Beginning	(27,409)	133,695
Net Assets - Ending	<u>\$ (1,769)</u>	<u>\$ (27,409)</u>

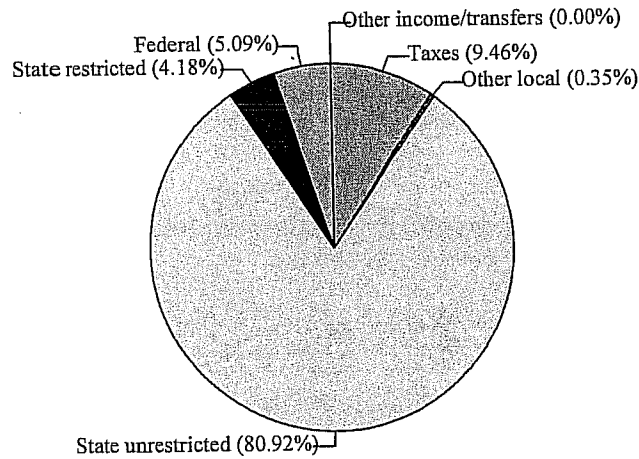
Dollar Bay-Tamarack City Area Schools
Management's Discussion and Analysis
June 30, 2005

The following charts highlight the District's General Fund activities:

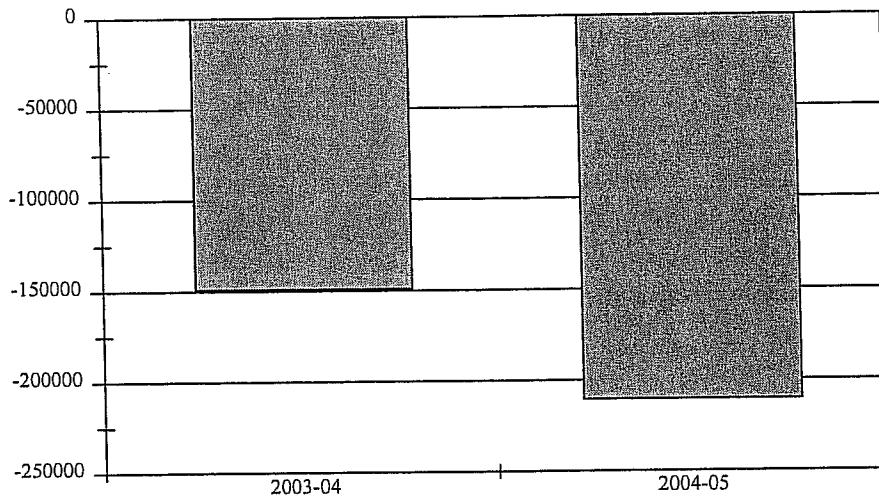
2004-05 Expenditures



2004-05 Revenues



Fund Balance Comparison



Dollar Bay-Tamarack City Area Schools
Management's Discussion and Analysis
June 30, 2005

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 2,097,647	\$ 2,065,362	\$ 32,285
Expenditures/Transfers	\$ 2,159,179	\$ 2,131,622	\$ 27,557
Fund Balance	\$ (209,128)	\$ (147,596)	\$ (61,532)
Debt Retirement Fund:			
Revenues/Transfers	\$ 250,269	\$ 225,776	\$ 24,493
Expenditures/Transfers	\$ 226,563	\$ 219,294	\$ 7,269
Fund Balance	\$ 54,963	\$ 31,257	\$ 23,706
School Food Service Fund:			
Revenues/Transfers	\$ 87,498	\$ 88,844	\$ (1,346)
Expenditures/Transfers	\$ 81,620	\$ 91,493	\$ (9,873)
Fund Balance	\$ 5,878	\$ 0	\$ 5,878
Athletic Fund:			
Revenues/Transfers	\$ 51,176	\$ 45,350	\$ 5,826
Expenditures/Transfers	\$ 39,460	\$ 45,350	\$ (5,890)
Fund Balance	\$ 0	\$ (11,716)	\$ 11,716

General Fund - The main increase in revenue is related to the tax revenue, in the amount of \$23,162.

School Food Service Fund - The Food Service program for the District has required operating transfers from the General Fund in recent years. No operating transfers were required for 2004-05.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts. The revenues and expenditures for this fund do not normally vary much from one year to the next with the exception of capital outlay.

Debt Service Fund - The Debt Service Fund collects property taxes to finance the payment of interest and principal on bond issue-related debt of the District. This is the second year the District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments.

Dollar Bay-Tamarack City Area Schools
Management's Discussion and Analysis
June 30, 2005

Changes to Budget and Comparison to Actual Results

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2005, the original budget was adopted on June 14, 2004. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances, therefore the District amended its budget twice during the fiscal year.

The District had used outside accounting services for the last two years to reduced costs. During these years, the District has not had timely, reliable or accurate accounting records. We have made changes by hiring a business manager to assist in the analysis and administration of financial information and to keep the accounting records up-to-date. In addition, reporting of the District's financial status in comparison to budget will be available to the Board in a more timely manner.

Upon reviewing the final audited information indicated that not having accurate accounting records and/or reports made each of the budget changes appear inaccurate and misleading. Based on the previously mentioned changes to our accounting procedures, we anticipate reliable budgeting and supervision of financial records.

Capital Assets and Debt Administration

Capital Assets: There were no changes in capital assets. Additional information on the District's capital assets can be found on page 24 of this report.

Long-term Debt: At the end of the current fiscal year, the Districts total debt was \$5,420,603. This total amount is backed by the full faith and credit of the District. The District's total debt was increased \$2,455,000 due to refunding of general obligation unlimited tax refunding bonds to advance refund \$2,350,000 of outstanding unlimited tax obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1997 Refunding Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2006.

This advance refunding was undertaken to reduce total debt service payments over the next 22 years by \$186,573.

Additional information on the District's long-term debt can be found on page 25 of this report.

**Dollar Bay-Tamarack City Area Schools
Management's Discussion and Analysis
June 30, 2005**

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in the State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$6,875 for the 2005-06 school year. This represents an increase of \$175 over the 2004-05 school year, the first increase in three years.

Approximately 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Dollar Bay-Tamarack City Area Schools.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 114,626
Investments	259,092
Taxes receivable	23,556
Due from other governmental units	<u>354,361</u>
TOTAL CURRENT ASSETS	<u>751,635</u>
NON-CURRENT ASSETS:	
Restricted cash	21,689
Restricted investment	<u>2,455,000</u>
Total Restricted Assets	<u>2,476,689</u>
Capital assets	3,797,372
Less: Accumulated depreciation	<u>(660,251)</u>
Net Capital Assets	<u>3,137,121</u>
TOTAL NON-CURRENT ASSETS	<u>5,613,810</u>
TOTAL ASSETS	<u>\$ 6,365,445</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 31,725
Accrued expenses	298,040
Accrued interest	97,740
Due to other governmental units	66,846
Short-term note payable	525,000
Notes payable within one year	3,525
Bonds payable within one year	<u>2,450,000</u>
TOTAL CURRENT LIABILITIES	<u>3,472,876</u>
NON-CURRENT LIABILITIES:	
Bonds payable, due in more than one year	2,455,000
Accrued retirement and vacation	171,870
School bond loan fund payable	<u>267,468</u>
TOTAL NON-CURRENT LIABILITIES	<u>2,894,338</u>
TOTAL LIABILITIES	<u>6,367,214</u>
NET ASSETS:	
Invested in capital assets, net of related debt	318,388
Restricted for debt service	54,963
Unreserved	<u>(375,120)</u>
TOTAL NET ASSETS	<u>(1,769)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,365,445</u>

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF ACTIVITIES
June 30, 2005

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 1,430,793	\$ -	\$ 194,390	\$ (1,236,403)
Support services	666,021	-	-	(666,021)
School service	81,620	25,985	60,450	4,815
Athletics	39,460	11,397	-	(28,063)
Interest on long-term debt	161,500	-	-	(161,500)
Other debt service	13,275	-	-	(13,275)
Total Governmental Activities	<u>\$ 2,392,669</u>	<u>\$ 37,382</u>	<u>\$ 254,840</u>	<u>(2,100,447)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operations				198,115
Property taxes, levied for debt service				249,977
State school aid - unrestricted				1,697,515
Interest and investment earnings				7,412
Other				<u>(26,932)</u>
Total general revenues and transfers				<u>2,126,087</u>
Change in Net Assets				25,640
Net Assets - Beginning				<u>(27,409)</u>
Net Assets - Ending				<u>\$ (1,769)</u>

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and cash equivalents	\$ 113,526	\$ -	\$ 1,100	\$ 114,626
Investments	259,092	-	-	259,092
Taxes receivable	11,405	12,151	-	23,556
Due from other governmental units	353,788	-	573	354,361
Due from other funds	-	21,123	16,449	37,572
Restricted cash	-	21,689	-	21,689
TOTAL ASSETS	<u>\$ 737,811</u>	<u>\$ 54,963</u>	<u>\$ 18,122</u>	<u>\$ 810,896</u>
LIABILITIES:				
Accounts payable	\$ 23,780	\$ -	\$ 7,945	\$ 31,725
Accrued expenses	293,740	-	4,300	298,040
Due to other governmental units	66,846	-	-	66,846
Due to other funds	37,573	-	(1)	37,572
Short-term notes payable	525,000	-	-	525,000
TOTAL LIABILITIES	<u>946,939</u>	<u>-</u>	<u>12,244</u>	<u>959,183</u>
FUND BALANCES:				
Reserved	-	54,963	-	54,963
Unreserved	(209,128)	-	5,878	(203,250)
TOTAL FUND BALANCES	<u>(209,128)</u>	<u>54,963</u>	<u>5,878</u>	<u>(148,287)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 737,811</u>	<u>\$ 54,963</u>	<u>\$ 18,122</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,137,121
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(2,892,863)
Accrued interest is not included as a liability in governmental funds.	(97,740)
Net assets of governmental activities	<u>\$ (1,769)</u>

The accompanying notes to financial statements are an integral part of this statement

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended 2005

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
REVENUES				
Local sources	\$ 205,742	\$ 250,269	\$ 38,445	\$ 494,456
State sources	1,785,135	-	11,068	1,796,203
Federal sources	106,770	-	49,382	156,152
Total revenues	2,097,647	250,269	98,895	2,446,811
EXPENDITURES				
Instruction	1,442,004	-	-	1,442,004
Supporting services	648,894	-	-	648,894
Debt service	-	151,563	-	151,563
School service	-	-	81,620	81,620
Athletics	-	-	39,460	39,460
Total expenditures	2,090,898	151,563	121,080	2,363,541
Excess (deficiency) of revenue over expenditures	6,749	98,706	(22,185)	83,270
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(39,779)	-	39,779	-
Transfers to other districts	(28,502)	-	-	(28,502)
Loan payments	-	(75,000)	-	(75,000)
Total other financing sources (uses)	68,281	75,000	39,779	103,502
NET CHANGE IN FUND BALANCE	(61,532)	23,706	17,594	(20,232)
FUND BALANCES - BEGINNING OF YEAR	(147,596)	31,257	(11,716)	
FUND BALANCES - END OF YEAR	\$ (209,128)	\$ 54,963	\$ 5,878	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation but does report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(96,049)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	61,371
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	80,550
Change in net assets of governmental activities	\$ 25,640

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Fiduciary Fund</u>
ASSETS:	
Cash and investments	\$ <u>13,874</u>
LIABILITIES:	
Due to student groups	\$ <u>13,874</u>

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Dollar Bay-Tamarack City Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the more significant policies:

REPORTING ENTITY

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School is able to exercise oversight responsibilities. The School District has no component units.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, & FINANCIAL STATEMENT PRESENTATION

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue are (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, and Athletic Activities.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds."

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes. Property taxes are levied by Osceola Township and Torch Lake Townships for the Summer on July 1 and become due on September 14, and for the Winter they are levied on December 1 and become due on February 14.

The 2004 non-homestead and homestead taxable valuation of the District amounted to \$11,006,439 and \$18,497,659, respectfully. Ad valorem taxes of \$198,115 were levied for operating purposes (18.00 mills) based on non-homestead taxable valuation and \$231,017 for debt retirement (7.83 mills) based on homestead and non-homestead taxable valuation. These amounts are recorded as revenue on the District's records in and for the fiscal year ending June 30, 2005.

Inventory - The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Fixed Assets

Fixed assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$171,870, consisted of unused vacation and retirement incentives.

Vacation - Non-affiliated staff accrued vacation as of June 30, 2005 is \$9,620.

Retirement Incentive - The District's contract with the Copper Country Education Association includes a retirement incentive payment to retiring teachers. Twelve employees accepted the incentive with payments in installments over three to five years. The liability to the District at June 30, 2005 was \$162,250.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Comparative Data/Reclassifications

Comparative data is not included in the School District's financial statements.

BUDGETARY DATA

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Each May, the Superintendent and Business Manager prepare a proposed operating budget for the fiscal year commencing the following July 1, and submit this proposed budget to the Board at the regular June meeting.
2. The Board reviews the proposed budget, which includes proposed expenditures and the means of financing them.
3. Pursuant to statute, the proposed budget as approved by the Board, is submitted to the community at a public hearing, at which time public comment is invited. The final budget is formally adopted at the next board meeting.
4. The Board reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
5. Budget appropriations lapse at the end of the fiscal year.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - BUDGETING AND ACCOUNTING

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Description	Total Appropriations	Amount of Expenditures	Budget Variances
General Fund-Public Transportation	\$80,130	\$83,938	(\$3,808)
School Food Service	\$80,330	\$81,620	(\$1,290)
Athletic	\$34,691	\$35,715	(\$1,024)

NOTE C - CASH AND INVESTMENTS

CASH DEPOSITS

At year-end, the School District's deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 114,554	\$ 13,874	\$ 128,428
Petty cash	72	0	72
Total unrestricted	114,626	13,874	128,500
Restricted cash	21,689		21,689
Total deposits and investments	<u>\$ 136,315</u>	<u>\$ 13,874</u>	<u>\$ 150,189</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE C - CASH AND INVESTMENTS (Continued)

At June 30, 2005, the book value of the School District's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$150,190 with a corresponding bank balance of \$225,642. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$121,689, representing approximately 54% of the District's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$121,689 insured and \$103,952 was neither insured or collateralized.

INVESTMENTS

The investment of the School District's funds is governed by state statutes. In general, state statutes provide that the School District is authorized to invest its funds in certificates of deposit, savings accounts and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest are fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

At June 30, 2005, the District's investments consisted of mutual funds which are not categorized because they are not evidenced by securities that exist in physical or book entry form. The District had \$259,092 in mutual funds with Michigan School District Liquid Asset Fund Plus.

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Land	\$ 1	\$ 0	\$ 0	\$ 1
Building and additions	3,532,869	0	0	3,532,869
Equipment and furniture	87,058	0	0	87,058
School buses	166,444	0	0	166,444
Vehicles other than buses	11,000	0	0	11,000
Subtotal	<u>3,835,539</u>	<u>0</u>	<u>0</u>	<u>3,797,372</u>
Accumulated depreciation:				
Building and additions	360,511	71,377	0	431,888
Equipment and furniture	73,649	5,912	0	79,561
School buses	124,542	17,385	0	141,927
Vehicle other than buses	5,500	1,375	0	6,875
	<u>564,202</u>	<u>96,049</u>	<u>0</u>	<u>660,251</u>
Net capital assets	<u>\$ 3,271,337</u>	<u>\$ (96,049)</u>	<u>\$ 0</u>	<u>\$ 3,137,121</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE D - FIXED ASSETS (Continued)

Depreciation expense was charged to activities of the School District as follows:

Governmental activities		
Instruction	\$	77,289
Operations		1,375
Transportation		17,385
Total governmental activities	\$	<u>96,049</u>

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2005 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 0	General	\$ 37,573
Athletic	4,064	Athletic	0
Food Service	12,385	Food Service	(1)
Debt Retirement	21,123	Debt Retirement	0
TOTAL	<u>\$ 37,572</u>	TOTAL	<u>\$ 37,572</u>

Fund	Transfer In	Fund	Transfer Out
General	\$ 0	General	\$ 39,779
Athletic	39,779	Athletic	0
TOTAL	<u>\$ 39,779</u>	TOTAL	<u>\$ 39,779</u>

NOTE F - LONG TERM DEBT

1997 Building and Site Bonds

On June 23, 1997, the School District issued \$3,000,000 of unlimited tax general obligation bonds to finance erecting, furnishing, and equipping additions to and partially remodeling, refurbishing, and re-equipping school buildings; acquiring and installing technology improvements; erecting a bus garage; and developing and improving the site.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 5.375% to 8.00% per annum. Interest payments began on May 1, 1998, and are payable semi-annually on May 1 and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption - Bonds of this issue maturing in the years 1998 through 2006, inclusive, shall not be subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the year 2007 and thereafter, shall be subject to redemption prior to maturity at the option of the School District, in such order as the School District may determine and by lot within any maturity, on any interest payment date on or after May 1, 2006, at par and accrued interest to date fixed for redemption.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG TERM DEBT (Continued)

Mandatory Redemption - Bonds maturing on May 1, 2027 in the amount of \$125,000, are term bonds subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount thereof as provided in the bonds.

School Year Payable	November 1 Interest	May 1 Interest	May 1 Principal	Total
2005-06	\$ 4,000	\$ 4,000	\$ 100,000	\$ 108,000

2005 Advance Refunding

On April 27, 2005 the Authority issued \$2,455,000 of general obligation unlimited tax refunding bonds to advance refund \$2,350,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1997 Refunding Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2006.

This advance refunding was undertaken to reduce total debt service payments over the next 22 years by \$186,573. Sources and uses of funds to service the old debt and the new debt and complete the refunding were as follows:

Sources of Funds:

Par amount of bonds	\$ 2,455,000
Production	3,395
Contribution from Prior Bonds Debt Fund	70,000
NET SOURCES OF FUNDS	<u>\$ 2,528,395</u>

Uses of Funds:

Deposit to Escrow Account	\$ 2,455,503
Underwriter's Discount @ 0.750%	17,945
Bond Insurance Premium	10,000
Costs of Issuance	43,311
Miscellaneous	1,636
TOTAL FUNDS USED	<u>\$ 2,528,395</u>

The bond issue matures as indicated below with interest at varying rates of 3.75% to 4.5% per annum. Interest payments started on November 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: Bonds of this issue maturing in the years 2007 through 2014, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2015 and thereafter, shall be subject to redemption prior to maturity, at the option of the School District, in such order as the School District may determine and by lot within any maturity, on the first day of any month on or after May 1, 2014, at par and accrued interest to the date fixed for redemption.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG-TERM DEBT (Continued)

Mandatory Redemption: The Bonds maturing May 1, 2022, May 1, 2004 and May 1, 2027 are term bonds subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date. When term Bonds are purchased by the School District and delivered to the Paying agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the term Bonds affected shall be reduced by the principal amount of the bonds so redeemed or purchased in the order determined by the School District.

TERM BOND DUE

May 1, 2022	
Redemption Date	Principal Amounts
May 1, 2021	\$ 125,000
May 1, 2022 (Maturity)	\$ 125,000

May 1, 2024	
Redemption Date	Principal Amounts
May 1, 2023	\$ 125,000
May 1, 2024 (Maturity)	\$ 125,000

May 1, 2027	
Redemption Date	Principal Amounts
May 1, 2025	\$ 125,000
May 1, 2026	\$ 125,000
May 1, 2027 (Maturity)	\$ 125,000

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG-TERM DEBT (Continued)

2005 Advance Refunding Schedule

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2005-2006	\$ 51,385	\$ 50,267	\$ 0	\$ 101,652
2006-2007	50,268	50,268	110,000	210,536
2007-2008	48,205	48,205	110,000	206,410
2008-2009	46,142	46,142	110,000	202,284
2009-2010	44,080	44,080	110,000	198,160
2010-2011	42,018	42,018	110,000	194,036
2011-2012	39,955	39,955	110,000	189,910
2012-2013	37,892	37,892	110,000	185,784
2013-2014	35,693	35,693	110,000	181,386
2014-2015	33,492	33,492	110,000	176,984
2015-2016	31,293	31,293	115,000	177,586
2016-2017	28,992	28,992	115,000	172,984
2017-2018	26,692	26,692	120,000	173,384
2018-2019	24,263	24,263	120,000	168,526
2019-2020	21,802	21,802	120,000	163,604
2020-2021	19,312	19,312	125,000	163,624
2021-2022	16,625	16,625	125,000	158,250
2022-2023	13,938	13,938	125,000	152,876
2023-2024	11,187	11,187	125,000	147,374
2024-2025	8,438	8,438	125,000	141,876
2025-2026	5,625	5,625	125,000	136,250
2026-2027	2,813	2,813	125,000	130,626
	<u>\$ 640,110</u>	<u>\$ 638,992</u>	<u>\$ 2,455,000</u>	<u>\$ 3,734,102</u>

SCHOOL BOND LOAN FUND

In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2005, the balance due to the School Bond Loan Fund was \$327,366, including accrued interest of \$59,898.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1997 and 2005 refunding bond issues. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds.

The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rate at June 30, 2005 was 3.125%.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG-TERM DEBT (Continued)

RETIREMENT PAYABLE

The School District approved a retirement agreement with various employees. Under the agreements, the School District pays each employee a monthly payment based on the agreed upon amounts. The amounts are paid in various monthly installments.

The payment schedule is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2005-2006	\$ 39,750
2006-2007	19,000
2007-2008	38,250
2008-2009	31,500
2009-2010	27,000
2010-2011	6,750
Total	<u>\$ 162,250</u>

Capital Lease Agreements

On February 25, 2003, the District entered into a capital lease agreement with Kansas State Bank of Manhattan in the amount of \$16,125 for a Kyocera/Mita KM-4530 copier. The lease fixed payments are made monthly and include interest. The lease with Kansas State Bank of Manhattan will expire January 10, 2006, at which time the District will legally own the copier.

The following is a schedule of the lease payments:

<u>Payable</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
<u>School Year</u>			
2005-2006	\$ 129	\$ 3,525	\$ 3,654

Activity in the general long-term obligations account group was as follows for the year ended June 30, 2005:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2005</u>	<u>Portion</u>
1997 Serial Bonds	\$ 2,525,000	\$ 0	\$ 100,000	\$ 2,425,000	\$ 2,425,000
2005 Refunding Bond	0	2,455,000	0	2,455,000	0
School Bond Loan	267,468	0	0	267,468	0
Capital Lease	9,075	0	5,550	3,525	3,525
Retirement Incentive	250,750	0	88,500	162,250	39,750
	<u>3,052,293</u>	<u>2,455,000</u>	<u>194,050</u>	<u>5,313,243</u>	<u>\$ 2,468,275</u>
Accrued Interest	74,528	97,740	0	172,268	
Accrued Benefits	5,703	3,917	0	9,620	
TOTAL	<u>\$ 3,132,524</u>	<u>\$ 2,556,657</u>	<u>\$ 194,050</u>	<u>\$ 5,495,131</u>	

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE F - LONG-TERM DEBT (Continued)

As of June 30, 2005, the aggregate maturities of long-term debt are as follows:

<u>School Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005-2006	\$ 109,781	\$ 2,468,275	\$ 2,578,056
2006-2007	100,536	129,000	229,536
2007-2008	96,410	148,250	244,660
2008-2009	92,284	141,500	233,784
2009-2010	88,160	137,000	225,160
2010-2011	84,036	116,750	200,786
2011-2012	79,910	110,000	189,910
2012-2013	75,784	110,000	185,784
2013-2018	312,324	570,000	882,324
2018-2023	191,880	615,000	806,880
2023-2027	56,126	767,468	823,594
TOTAL	<u>\$ 1,287,231</u>	<u>\$ 5,313,243</u>	<u>\$ 6,600,474</u>

NOTE G - NOTE PAYABLE

During the year ended June 30, 2005, the School District borrowed funds from the Michigan Municipal Bond Authority for cash flow purposes.

<u>Purpose of Loan</u>	<u>Date Of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/05 Balance</u>
Cash flow loan	08/20/04	<u>\$ 525,000</u>	08/20/05	1.57%	<u>\$525,000</u>

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 12.99% of covered compensation through September 30, 2004 and 14.87% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$190,361, which consisted of \$160,541 from the District and \$29,820 from employees electing the MIP option. These represent approximately 14.17% and 2.63% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$1,132,622. The District's total payroll was approximately \$1,162,338.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPSERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$36 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 80.36%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2005 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2004 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

NOTE I - FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 18.000 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

2004-05 Foundation	\$	6,700.00
Less Local Support:		
Non-Homestead Tax Value		11,006,439
Multiplied by mills		0.018
Total Local Support		<u>198,116</u>
Divided by General Education K-12 membership		<u>282.93</u>
Calculated Local Support		<u>(700.23)</u>
2004-05 Foundation Grant Allowance Per Pupil	\$	<u><u>5,999.77</u></u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE J - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

Total current payments per R7120	\$ 140,739
Less State School Breakfast Program	(1,648)
Less prior year account receivables:	
Title I	(8,241)
Title II	(5,072)
Plus:	
Title I accounts receivable	321
Title II accounts receivable	5,591
Improving Teacher Quality accounts receivable	5,831
USDA Commodities	994
Direct Federal grants	17,637
Total Federal Financial Assistance	<u>\$ 156,152</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2005 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE K - CONTINGENT LIABILITIES

Risk Pool

Dollar Bay-Tamarack City Area Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Dollar Bay-Tamarack City Area Schools joined together with other school districts currently operating a common risk management and insurance program. Dollar Bay-Tamarack City Area Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Dollar Bay-Tamarack City Area Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2005, which can be obtained through the School District.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2005

NOTE L - DEFICIT FUND BALANCES

The general purpose financial statements show fund deficits at June 30, 2005 in the General Fund of \$209,128.

The following is an outline of specific steps the District has included in the deficit elimination plan:

- The District will eliminate a part-time Science teacher, auxiliary staff positions, a secretarial positions, and reduce the Teacher-Aid staff. In addition, administrative staff will assume both Athletic Director duties as well as Health/Physical Education teacher assignments.
- The reduction of athletic and career technical transportation costs, along with cost effective purchase of supplies, materials, and purchased services will help eliminate the deficit fund balance. The District also will save in the renegotiated Hot Lunch program.
- Based on contract negotiations, there is expected savings in the health benefit package, acceptance of buy-out packages by three teachers who will retire in the near future, and a freeze in administrative salaries for 2005-2006. In addition, the District plans to decrease annual schedule payments to retired teachers.
- The District anticipates an increase in Impact Aid Revenue and to receive the Comprehensive School Reform Grant which will increase revenues through the years.

The District is aware that the deficit elimination plan must be strictly adhered to for the 2005-2006 and 2006-2007 school years. If the plan is not followed stringently, more cost-reduction measures will be taken. Such measures may include the elimination and/or reduction of an administrative staff position, counselor, librarian, and all para-professional positions.

NOTE M - RECLASSIFICATION

Certain items in the June 2004 financial statements have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 284,500	\$ 248,660	\$ 205,742	\$ (42,918)
State sources	1,764,800	1,786,065	1,785,135	(930)
Federal sources	105,000	110,743	106,770	(3,973)
TOTAL REVENUE	2,154,300	2,145,468	2,097,647	(47,821)
EXPENDITURES:				
Instruction	1,439,205	1,494,467	1,442,004	52,463
Supporting services	654,948	725,499	648,894	76,605
TOTAL EXPENDITURES	2,094,153	2,219,966	2,090,898	129,068
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	60,147	(74,498)	6,749	81,247
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	2,000	-	-	-
Operating transfers out	(33,960)	(39,297)	(39,779)	(482)
Other outgoing transfers	(40,000)	(33,000)	(28,502)	4,498
Total other financing sources (uses)	(71,960)	(72,297)	(68,281)	4,016
NET CHANGE IN FUND BALANCE	(11,813)	(146,795)	(61,532)	(85,263)
FUND BALANCE - BEGINNING OF YEAR	(147,596)	(147,596)	(147,596)	-
FUND BALANCE - END OF YEAR	<u>\$ (159,409)</u>	<u>\$ (294,391)</u>	<u>\$ (209,128)</u>	<u>\$ (85,263)</u>

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ending June 30, 2005
With Comparative amounts for June 30, 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes:	\$ 198,406	\$ 175,244
Other local sources:		
Investment revenue	6,829	4,136
Miscellaneous	507	3,044
Total other local sources	<u>7,336</u>	<u>7,180</u>
Total local sources	<u>205,742</u>	<u>182,424</u>
State sources:		
Unrestricted grant - State Aid	<u>1,697,515</u>	<u>1,652,052</u>
Restricted grants:		
Driver's education	3,570	2,812
Special Education	21,353	22,993
School Readiness	809	1,858
At-risk	61,806	59,646
Other state revenue	82	191
Total restricted grants	<u>87,620</u>	<u>87,500</u>
Total state sources	<u>1,785,135</u>	<u>1,739,552</u>
Federal sources:		
Title I	62,648	92,870
Title V	1,531	1,849
Title II	24,954	32,262
Other federal sources	17,637	16,405
Total federal sources	<u>106,770</u>	<u>143,386</u>
TOTAL REVENUES	<u>2,097,647</u>	<u>2,065,362</u>
EXPENDITURES:		
Instruction:		
Basic program:		
Elementary School	507,385	478,791
High School	732,965	709,437
Total basic program	<u>1,240,350</u>	<u>1,188,228</u>
Added needs:		
Special education - Elementary School	71,866	72,756
Compensatory education	54,883	64,115
At-Risk	74,905	69,736
Total added needs	<u>201,654</u>	<u>206,607</u>
Total instruction	<u>1,442,004</u>	<u>1,394,835</u>
Supporting services:		

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ending June 30, 2005
With Comparative amounts for June 30, 2004

Pupil:		
Guidance	21,856	25,785
Instructional staff:		
Improvement of instruction	9,946	5,955
Library	33,528	30,924
Total instructional staff	43,474	36,879
General administration:		
Board of education	25,045	19,598
Executive administration	125,503	144,225
Total general administration	150,548	163,823
School administration - Principal	137,635	129,014
Business-fiscal services	34,994	15,324
Operation & maintenance	176,448	215,266
Pupil transportation	83,939	71,168
Total supporting services	648,894	657,259
TOTAL EXPENDITURES	2,090,898	2,052,094
EXCESS OF REVENUES OVER EXPENDITURES	6,749	13,268
OTHER FINANCING SOURCES (USES):		
Operating transfer out	(39,779)	(51,500)
Other outgoing transfers	(28,502)	(28,028)
TOTAL OTHER FINANCING SOURCES (USES)	(68,281)	(79,528)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(61,532)	(66,260)
FUND BALANCE, BEGINNING OF YEAR	(147,596)	(81,336)
FUND BALANCE, END OF YEAR	\$ (209,128)	\$ (147,596)

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes:		
Current taxes	\$ 249,977	\$ 218,415
Interest income	86	-
Other taxes	-	7,267
Penalties & interest on delinquent taxes	206	94
TOTAL REVENUES	<u>250,269</u>	<u>225,776</u>
EXPENDITURES:		
Interest on bonds	138,288	144,288
Other expense	<u>13,275</u>	<u>6</u>
TOTAL EXPENDITURES	<u>151,563</u>	<u>144,294</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	98,706	81,483
OTHER FINANCING SOURCES (USES)		
Redemption of bond principal	<u>(75,000)</u>	<u>(75,000)</u>
TOTAL OTHER FINANCING SOURCES	75,000	75,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>23,706</u>	<u>6,483</u>
FUND BALANCE, BEGINNING OF YEAR	<u>31,257</u>	<u>24,774</u>
FUND BALANCE, END OF YEAR	<u>\$ 54,963</u>	<u>\$ 31,257</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	School Service	Athletic	Totals (Memorandum Only)	
			2005	2004
ASSETS AND OTHER DEBITS				
Cash	\$ -	\$ 1,100	\$ 1,100	\$ -
Due from funds	12,385	4,064	16,449	-
Due from other governmental units	573	-	573	-
TOTAL ASSETS	<u>\$ 12,958</u>	<u>\$ 5,164</u>	<u>\$ 18,122</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ 7,081	\$ 864	\$ 7,945	\$ -
Accrued expenses	-	4,300	4,300	-
Due to other funds	(1)	-	(1)	11,716
TOTAL LIABILITIES	<u>7,080</u>	<u>5,164</u>	<u>12,244</u>	<u>11,716</u>
FUND EQUITY:				
Fund balance - unreserved	<u>5,878</u>	<u>-</u>	<u>5,878</u>	<u>(11,716)</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 12,958</u>	<u>\$ 5,164</u>	<u>\$ 18,122</u>	<u>\$ -</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
SCHOOL SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Adult lunches	\$ 4,148	\$ 2,933
A-La-Carte	314	136
Student lunches	21,523	16,444
Earnings on investments	-	-
Miscellaneous	<u>1,063</u>	<u>844</u>
Total local sources	<u>27,048</u>	<u>20,357</u>
State sources	<u>11,068</u>	<u>1,212</u>
Federal sources:		
School lunch program	48,388	49,725
USDA entitlements	795	3,555
USDA bonus entitlements	<u>199</u>	<u>427</u>
Total federal sources	<u>49,382</u>	<u>53,707</u>
TOTAL REVENUES	<u>87,498</u>	<u>75,276</u>
EXPENDITURES:		
Salaries	14,538	13,374
Employee benefits	3,254	2,760
Purchase services	63,828	75,359
Supplies, materials, and other	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>81,620</u>	<u>91,493</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,878	(16,217)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>-</u>	<u>13,568</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	5,878	(2,649)
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>2,649</u>
FUND BALANCE, END OF YEAR	<u>\$ 5,878</u>	<u>\$ -</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
ATHLETIC FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Gate receipts	\$ 11,397	\$ 7,418
Other	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>11,397</u>	<u>7,418</u>
EXPENDITURES:		
Salaries	19,895	23,126
Employee benefits	3,512	4,222
Purchase services	13,697	7,022
Supplies, materials, and other	<u>2,356</u>	<u>10,980</u>
TOTAL EXPENDITURES	<u>39,460</u>	<u>45,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,063)	(37,932)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>39,779</u>	<u>37,932</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	11,716	-
FUND BALANCE, (DEFICIT) BEGINNING OF YEAR	<u>(11,716)</u>	<u>(11,716)</u>
FUND BALANCE, (DEFICIT) END OF YEAR	<u>\$ -</u>	<u>\$ (11,716)</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
June 30, 2005

	Balance June 30, 2004	Receipts	Disbursements	Balance June 30, 2005
ASSETS				
Cash	\$ 18,517	\$ 80,059	\$ 84,702	\$ 13,874
TOTAL ASSETS	<u>\$ 18,517</u>	<u>\$ 80,059</u>	<u>\$ 84,702</u>	<u>\$ 13,874</u>
LIABILITIES				
Due to general fund	\$ 130	\$ 0	\$ 130	\$ 0
Due to school groups				
Swimming	55	0	55	0
Cheerleaders	(791)	2,279	1,687	(199)
Class of 2003	(273)	273	0	0
Class of 2004	0	0	0	0
Class of 2005	4,249	28,350	32,599	0
Class of 2006	3,366	6,384	7,656	2,094
Class of 2007	502	970	316	1,156
Class of 2008	659	1,538	0	2,197
Class of 2009	5	0	0	5
Transition Grant	128	0	0	128
Bill Milde Memorial Fund	332	0	0	332
Student Council	2,761	13,836	12,210	4,387
Yearbook	638	6,947	7,468	117
Sixth Grade Camp Nesbit	2,625	2,484	5,109	0
Girls Basketball	111	2,119	1,803	427
Boys Basketball	(1,187)	0	0	(1,187)
Principal's Discretionary	1,720	5,706	7,271	155
Odyssey of the Mind	363	0	0	363
Band	3,034	8,650	8,004	3,680
S.A.D.D.	90	1,053	924	219
Total due to student groups	<u>18,387</u>	<u>80,589</u>	<u>85,102</u>	<u>13,874</u>
TOTAL LIABILITIES	<u>\$ 18,517</u>	<u>\$ 80,589</u>	<u>\$ 85,232</u>	<u>\$ 13,874</u>



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

In connection with our audit of the financial statements of Dollar Bay-Tamarack City Area Schools, as of and for the year ended June 30, 2005, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

Insured Deposits

We noted approximately fifty-four percent (54%) of the School's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend extending deposits to various financial institutions to decrease the risk of potential loss to the District.

General (3rd Year Comment)

During the audit, we noted that accounting reports are not made available on a timely basis. We did note that the district has taken steps to correct this by hiring a Business Manager to replace the outsourcing of accounting. We believe it would be very beneficial to formulate a complete accounting policies and procedures manual which would document the flow of financial information and set guidelines as to the responsibilities and time lines for the school and outside accounting service.

Documentation of Board Proceedings (2nd Year Comment)

The following items should be documented in the board minutes as they occur: the hiring of significant new employees; details of contracts entered into; information regarding obtaining and accepting bids; transfers of funds, new or additional revenue including grants; fund balance designations; and the opening and closing of bank accounts, as well as approval of authorized signers and restrictions on accounts. It is also important, when adopting or amending the budget, to state the total revenues and expenditures approved and attach a signed copy of the budget to those minutes.

Deficit Fund Balance (2nd Year comment)

The general purpose financial statements show fund deficits at June 30, 2005 in the General Fund of \$209,128.

We recommend that the board continue to monitor the fund balances of all funds and take the steps to avoid such deficits as necessary. In accordance with the State School Aid Act of 1979, the school must formulate and file a deficit elimination plan with Michigan Department of Education. We noted that a plan was submitted on November 1, 2005. The school district is required to submit to Michigan Department of Education, for approval, a budget for the current school fiscal year and a plan to eliminate the district's deficit no later than the end of the second school fiscal year after the deficit was incurred.

Budget Over Expenditures

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Over expenditures occurred in the following funds:

Description	Total Appropriations	Amount of Expenditures	Budget Variances
General Fund-Public Transportation	\$80,130	\$83,938	(\$3,808)
School Food Service	\$80,330	\$81,620	(\$1,290)
Athletic	\$34,691	\$35,715	(\$1,024)

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency, and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukhila, CPA, PC

Certified Public Accountants

September 28, 2005